

**MINUTES
ROCKFORD FIREFIGHTERS' PENSION FUND**

March 20, 2014

A regular meeting of the Board of Trustees of the Rockford Firefighters' Pension Fund was held on Thursday, March 20, 2014, at 3:00 p.m. in the second floor conference room of the City Hall at 425 E. State Street, Rockford, Illinois, pursuant to notice.

CALL TO ORDER

The meeting was called to order at 3:05 p.m. Upon a call of the roll, the following answered:

ATTENDED: Alan Granite, President
Tracy Renfro, Secretary
Chris Black, City Finance Director

Jim Strey, Trustee
Michael White, Trustee

STAFF: Ted Dutkiewicz, Revenue Manager
Judi Yehling, Recording Secretary

Linda Wlaznik, Pension Investment Accountant

GUESTS: Attorney Carolyn Clifford, Ottosen Britz
Richard Tatlow, Dimensional

Mike Piotrowski, Marquette Associates

I. PUBLIC COMMENT -- None

II. MINUTES

- The February 20th minutes were presented. Alan Granite made a motion to approve the minutes and Jim Strey seconded the motion. A roll call vote was taken:

Ayes:	Alan Granite	Jim Strey
	Tracy Renfro	Michael White
	Chris Black	
Nays:	None	

III. APPROVAL OF APPLICATIONS/PENSION CHANGES -- None

IV. DISBURSEMENTS

- Alan Granite made a motion to approve the March payroll of \$1,312,218.67. Tracy Renfro seconded the motion. A roll call vote was taken:

Ayes:	Alan Granite	Jim Strey
	Tracy Renfro	Michael White
	Chris Black	
Nays:	None	

- Invoices totaling \$27,460.83 were presented as shown in the attached warrant packet. Jim Strey made a motion to approve the invoices as presented in the warrant packet. Tracy Renfro seconded the motion. A roll call vote was taken:

Ayes:	Alan Granite	Jim Strey
	Tracy Renfro	Michael White
	Chris Black	
Nays:	None	

V. CASH & INVESTMENTS

- Mike Piotrowski presented Marquette Associates' Report for February 2014:
 - Total assets of the Fund at the end of February were \$152.4 million. February was a "good month with a nice reversal" from January.
 - Fund is pretty much in line with its target allocations. This is based on the "old" target and not the one approved at the last meeting but they are pretty similar in nature. Will recommend taking cash needs this month from Fiduciary on the US equity small cap side bringing down the US and small cap exposure somewhat.
 - Performance-wise the Fund was up 2.6% for the month and 1.2% for the year which is ahead of the policy benchmark. At five years it is up a little over 10% and the 10-year number has improved significantly getting closer to the 7.5% assumed rate of return.
 - Indicated on page 3 of the report was the performance of the individual funds:
 - Both Hillswick and Segal did well with Hillswick doing a little better due to its longer duration; Fiduciary was up 4.5% in February; Manning was up 2% YTD but DFA is in negative territory; adding a small cap manager in emerging markets should help performance.
 - Page 4 shows REITS with a phenomenal start to the year, up almost 10%. Principal is up 13% over the year.
 - The themes remain the same – real estate is doing well and fixed income is challenging.
- Cash needs for the month are \$1 million. The recommendation is to take \$1 million from Fiduciary. Alan Granite made a motion, seconded by Jim Strey, to take \$1 million from Fiduciary to meet cash needs for the month. A roll call vote was taken:

Ayes: Alan Granite Jim Strey
 Tracy Renfro Michael White
 Chris Black
Nays: None

- Records of purchases and sales were distributed.

Jim Strey made a motion, seconded by Chris Black, to approve the purchases and sales for the month. A roll call vote was taken:

Ayes: Alan Granite Jim Strey
 Tracy Renfro Michael White
 Chris Black
Nays: None

- Mike Piotrowski presented Marquette Associates' International Small-Cap Search:
 - DFA and Manning are the current international managers. DFA is the emerging markets, all-cap value manager and Manning is core growth all-cap manager. For the international sector, according to Marquette, "all the managers are good."
 - Page 5 shows the five candidates profiled for consideration, all of whom are mutual funds. Hartford and T. Rowe are both more core to growth, and Mike Piotrowski would suggest ruling out DFA as we should be looking for more diversification of style within the Fund.

- Page 12 gives a five-year return factor-based analysis and the higher the number the more the style fits that manager.
 - Brandes is a deep value fund with the highest number in the value “bucket. T Rowe and Brandes are more small cap. We’re looking for a more small cap or core-type manager, as we already have a value manager. Mike Piotrowski would prefer as the manager that fits the most would be T. Rowe and next Brandes but with the deep value bias doesn’t fit as well. All in all the two best fits/preferences would be T. Rowe and Columbia.
 - The Alpha “bucket” is a measure of the manager’s ability to add value over the benchmark.
 - They are all pretty expensive (pg. 24) with DFA the least expensive.
 - Past performance is shown on pages 9 and 10 and all of these managers have “done a good job over the long term.”
 - Mike Piotrowski said he would recommend that the Board interview two managers and he would definitely look at Columbia and T. Rowe as the best fits. Brandes is definitely a small cap and assets are only \$6 million but they are just so deep value; if you choose them he would consider moving DFA to core. Discussed the options further and if the Board likes Brandes would probably consider moving around DFA and Manning.
 - The Board would like to interview all three. Considering a time to bring in the candidates, Mike Piotrowski indicated that Hillswick, who was scheduled for next month, has a conflict so next month would be open for interviews. Mike Piotrowski will talk with the managers and see what works for them.
- Chip Tatlow of Dimensional provided his report on performance of the International emerging markets fund that Dimensional manages for the Rockford Firefighters’ Pension Fund:
 - Page 3 provides an update of the firm’s organization which is stable with \$340 billion under management and approximately 750 employees. They have opened some new offices in Singapore and Turkey; these local offices offer more economy of scale.
 - Page 7 tells what they do: Unlike traditional managers they think that the market does a pretty good job at identifying the appropriate price. They’ve been acting on this belief since 1981. They make sure that they balance the transaction costs with the expected return.
 - They look at four “dimensions of expected returns”: (1) the market – stocks have a premium over bonds; (2) size – small cap outperforms large caps; (3) value – value outperforms growth; and (4) expected profitability (a newly added dimension) -- companies with higher profits outperform companies with lower profits. They still use a deep market all cap market strategy.
 - Page 9 shows the premiums and on the left in the emerging markets. However, some of those premiums have not worked over the last couple of years.
 - Pages 11 and 12 give a visual of what the strategy is designed to do – it is an all cap, deep value emerging market strategy that they don’t deviate from. Their strategy has been consistent since 1998, and the portfolio is diversified over 19 countries. The diagrams on page 12 show how they implement this strategy. They look for deep value across the size spectrum, leaning more toward midcap higher profitability in the large cap space and in the small cap space which has lesser liquidity and consequently higher transaction costs they exclude the 10% least profitable stocks. The effort is to lead to higher expected returns and a more consistent outcome. Last year profitability did really well as a factor in the portfolio.
 - Page 13 shows the target weights of the market countries whose exposure to they cap at 15%. This is important for diversification.

- Another way they try to maximize return and minimize risk is by the “exclusion” process (pg. 15). Managing momentum (pg. 16) is also a method they use to maximize expected return; they wait for the momentum to dissipate.
- Another part of their process is to target areas of expected return – they don’t pay for immediacy (pg. 19). In sum, the above are all part of their process or “dimensions” of return that they apply in a consistent manner to get the greatest possible return for their clients.
- Page 22 charts the performance of the markets and shows the poor performance of emerging markets which have not been rewarded. Their belief is that the reason for this disparity is diversification and the overwhelmingly great performance of the US and the non-US developed markets and emerging markets is still a good asset class.
- In 2012 Dimension outperformed the benchmark but when this Fund got into the market in 2011 it was a tough point in the market and for Dimensional. Unfortunately 2013 has been flat and they trail the benchmark by about 1% net of fees.
- Mike Piotrowski followed up by saying that Dimensional has had a “tough go” but he expects to see the outcome reverse itself. The timing was poor/early but Marquette is still “a big believer in emerging markets” – “it is a very niche products... but they believe in (Dimensional’s) process and philosophy.”
- Ted Dutkiewicz passed out the report on the status of the Fund as of February 28, 2014:
 - The report showed total current market value of the Fund was \$152.12 million, down 0.613% year to date. The equity fund is down 1.445%, and fixed income is up 0.855% at 36.695% of the total Fund.
 - Total annual return is at 5.44%; equity annual return is -8.67%, a fixed income annual return of 29.19%, and a total income return of 6.09%.

VI. OLD BUSINESS

- The DOI annual statement is in progress.
- Secretary Renfro reported on the results of the nominations for Alan Granite’s trustee position. Have only one person running against Alan Granite, Brian Carlson. The ballots will be out by April 1 and collected by April 16.
- Prior to adjourning and before the joint meeting of the Firefighters’ Pension Fund and Police Pension Fund, the Board discussed briefly the nature of fiduciary liability policies. Many of the insurance firms no longer provide this type of coverage and the current carrier limited the coverage to \$2 million and a premium of \$15,276. Attorney Clifford commented that she has seen the language in these types of policies continuing to “evolve.” The exclusions in some of these policies for underfunding and holding municipal bonds are a few of reasons for changing or discontinuing coverage. Originally the Fund had \$1 million coverage, and when each Board decided to get its own coverage, it was decided to increase the coverage to \$2 million which increased premiums. In addition this coverage is written as though this is an ERISA fund which, of course, it is not. Mesirow will show the Board multiple policies and hopefully provide an understanding of these types of policies, what’s available and what the Board should be looking for.

VII. CLOSED MEETING – None required.

VIII. NEW BUSINESS - none.

- Attorney Clifford brought up for discussion several items:

- There are several pension-related bills proposed right now:
 - In one if the plaintiff is successful in overturning a decision by an administrative body, he will be entitled to attorney fees and costs but has more to do with property disputes.
 - Another concerns the employer's right to intervene in all disability matters.
 - The next fund under threat of legislative reform will be Chicago which will probably affect COLAs.

IX. Training

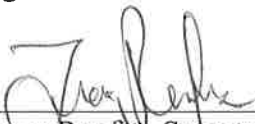
- Tracy Renfro needs four more hours and is doing on-line training right now. He can get another four hours by participating in a Marquette webinar and just write a memo to the Board confirming his "attendance."
- There are a few training sessions coming up in St. Charles in September.

X. Adjournment

A motion was made to adjourn the meeting. Motion carried and meeting was adjourned at 4:15 p.m.

Next regular meeting is April 17, 2014, at 3:00 p.m.

Signed:



Tracy Renfro, Secretary

4/17/14

Date

Prepared by:

Judith Yehling, Recording Secretary

Date

Approved by the Board of Trustees at its April 17, 2014, meeting.

